

National Instrument 51-102 Notice

The consolidated financial statements of Baden Technologies Inc. ("the Company") as at June 30, 2006 have been compiled by management and approved by the Company's Audit Committee on August 8, 2006.

These financial statements have not been reviewed or audited on behalf of the shareholders by the Company's independent external auditors, RSM Richter (Calgary) LLP (formerly Moody Shikaze Boulet LLP).

Baden Technologies Inc.
Consolidated Balance Sheet

(Unaudited - Prepared by Management)

	June 30, 2006 \$	December 31, 2005 \$
Assets		
Current assets		
Cash	131,028	137,195
Accounts receivable	1,852,963	175,952
Inventories (Note 2)	1,104,623	407,918
Prepaid expenses and deposits	124,117	34,100
	<u>3,212,731</u>	<u>755,165</u>
Property, plant and equipment (net)	632,653	461,038
Other assets	7,583	6,860
	<u>3,852,967</u>	<u>1,223,063</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Bank loan (Note 3)	832,883	444,989
Accounts payable and accrued liabilities	1,253,293	299,862
Customer deposits	556,142	115,231
Current portion of obligations under capital lease	58,236	12,619
	<u>2,700,554</u>	<u>872,701</u>
Obligations under capital lease	66,928	26,621
	<u>2,767,482</u>	<u>899,322</u>
Shareholders' equity		
Share capital (Note 4)	1,755,691	1,620,026
Share subscriptions received	-	105,000
Warrants (Note 4)	76,000	-
Contributed surplus (Note 4)	63,631	71,296
Deficit	(809,837)	(1,472,581)
	<u>1,085,485</u>	<u>323,741</u>
	<u>3,852,967</u>	<u>1,223,063</u>

Approved by the Board of Directors

“signed”
Richard Ball, Chairman

“signed”
Dennis L. Nerland, Director

See accompanying notes.

Baden Technologies Inc.
Consolidated Statement of Operations and Deficit

(Unaudited - Prepared by Management)

	Three months ended June 30, 2006 \$	Three months ended June 30, 2005 \$	Six months ended June 30, 2006 \$	Six months ended June 30, 2005 \$
Revenue	2,787,815	465,515	4,155,701	800,218
Expenses				
Cost of sales	1,727,476	280,584	2,645,831	509,435
Selling, general and administrative	560,541	194,154	793,187	378,476
Amortization	22,931	19,364	40,746	38,691
Interest on bank loan	4,062	3,467	12,051	4,338
Interest on obligations under capital lease	545	550	1,142	1,138
	2,323,541	498,119	3,492,957	932,078
Net income (loss) for period	464,274	(32,604)	662,744	(131,860)
Deficit – beginning of period	(1,274,111)	(946,015)	(1,472,581)	(846,759)
Deficit – end of period	(809,837)	(978,619)	(809,837)	(978,619)
Earnings (loss) per share				
Basic	0.03	–	0.04	(0.01)
Diluted	0.02	–	0.03	(0.01)

See accompanying notes.

Baden Technologies Inc.
Consolidated Statement of Cash Flows

(Unaudited - Prepared by Management)

	Three months ended June 30, 2006 \$	Three months ended June 30, 2005 \$	Six months ended June 30, 2006 \$	Six months ended June 30, 2005 \$
Operating activities				
Net income (loss) for the period	464,274	(32,604)	662,744	(131,860)
Items not affecting cash				
Gain on sale of asset	-	-	-	(9,298)
Stock based compensation	-	2,956	-	2,956
Amortization	22,931	19,364	40,746	38,691
	487,205	(10,284)	703,490	(99,511)
Change in non-cash working capital (Note 5)	(1,367,779)	(154,839)	(1,069,391)	(197,777)
Other assets	892	1,317	(723)	14,777
	(879,682)	(163,806)	(366,624)	(282,511)
Investing activities				
Purchase of property, plant and equipment	(71,848)	(1,090)	(117,151)	(1,090)
Proceeds on sale of property, plant and equipment	-	-	-	21,000
	(71,848)	(1,090)	(117,151)	19,910
Financing activities				
Issuance of share capital	14,000	-	99,000	-
Bank loan - net	534,800	68,790	387,894	255,349
Repayment of obligations under capital lease	(6,212)	(1,403)	(9,286)	(2,767)
	542,588	67,387	477,608	252,582
Increase (decrease) in cash	(408,942)	(97,509)	(6,167)	(10,019)
Cash – beginning of period	539,970	150,653	137,195	63,163
Cash – end of period	131,028	53,144	131,028	53,144
Supplemental information				
Interest paid on bank loan	4,062	3,467	12,051	4,338
Interest paid on obligations under capital lease	545	550	1,142	1,138

See accompanying notes.

Baden Technologies Inc.
Notes to Consolidated Financial Statements
June 30, 2006

(Unaudited – Prepared by Management)

1. Accounting policies

The interim consolidated financial statements for the six months ended June 30, 2006 should be read in conjunction with the audited consolidated financial statements for Baden Technologies Inc. (“Baden” or the “Company”) as at December 31, 2005. These interim consolidated financial statements are presented following the same accounting policies and methods of computation that were used in the audited consolidated financial statements of Baden for the year ended December 31, 2005. Notes to these interim consolidated financial statements are provided in compliance with regulatory disclosure requirements. Disclosures that are normally required in the notes to the annual consolidated financial statements have been condensed or omitted in the notes to these interim consolidated financial statements.

2. Inventories

	June 30, 2006	December 31,
	\$	2005
		\$
Parts and materials	456,741	206,408
Work in progress	647,882	201,510
	1,104,623	407,918

3. Bank loan

Demand operating loan with HSBC Bank Canada bears interest at prime plus 1.25% and is secured by a general security agreement in favour of the bank creating a floating first charge over all present and after acquired property of the Company and an assignment of insurance on the life of the President. The maximum authorized limit for the loan is \$300,000, limited to an amount determined by formula applied to certain assets and liabilities.

	June 30, 2006	December 31,
	\$	2005
		\$
	273,188	300,969

Demand project financing loan with HSBC Bank Canada bears interest at prime plus 1.5% and is secured by a general security agreement in favour of the bank creating a floating first charge over all present and after acquired property of the Company and an assignment of insurance on the life of the President. The project financing loan is to be used for a specific foreign project and is due at the earlier of the date of receipt of proceeds on the project or December 11, 2006. The maximum authorized limit for the loan is \$1,000,000, limited to an amount determined by a formula applied to certain assets.

	559,695	144,020
	832,883	444,989

Baden Technologies Inc.
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4. Share capital

Authorized:

Unlimited common shares
 Unlimited preferred shares

Shares issued at June 30, 2006:

	Number	Amount \$
Common shares:		
Balance – December 31, 2005	13,056,501	1,620,026
Issued for cash	3,800,000	114,000
Issued on exercise of stock options	140,000	21,665
Balance – June 30, 2006	<u>16,996,501</u>	<u>1,755,691</u>

Warrants:

	Number	Amount \$
Balance – December 31, 2005	–	–
Issued for cash	3,800,000	76,000
Balance – June 30, 2006	<u>3,800,000</u>	<u>76,000</u>

In January 2006, the Company issued 3,800,000 units to directors of the Company at \$0.05 per unit for total cash proceeds of \$190,000 on a private placement basis. Each unit consists of one common share and one warrant. Each warrant will entitle the holder to acquire one common share at an exercise price of \$0.10 per common share at any time on or before December 21, 2007. Management has allocated \$0.02 per unit to warrants and \$0.03 per unit to common shares.

In June 2006, a director of the Company exercised 140,000 options resulting in an increase in share capital of \$21,665. This was comprised of cash received of \$14,000 and the reclassification of \$7,665 from contributed surplus.

Stock options

The Company maintains a stock option plan (the “Plan”) for directors and certain officers, employees and consultants of the Company. Each option entitles the holder to acquire one share of the Company. The Board of Directors has reserved a total of ten percent (10%) of the issued and outstanding common shares of the Company for issuance of stock options. Stock options granted under the Plan may not be outstanding for a period of more than five years and the exercise price must be paid in full upon exercise of the option.

Baden Technologies Inc.
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June 30, 2006

(Unaudited – Prepared by Management)

The following is a continuity of stock options outstanding for which shares have been reserved:

	Number of options	Weighted average exercise price \$
Outstanding and exercisable – December 31, 2006	1,205,000	0.13
Exercised	(140,000)	0.10
Expired	(150,000)	0.30
Outstanding – June 30, 2006	915,000	0.11
Exercisable – June 30, 2006	915,000	0.11

The following summarizes information about stock options outstanding at June 30, 2006:

Exercise price \$	Number outstanding at June 30, 2006	Weighted average remaining contractual life in years
0.10	875,000	4.21
0.40	40,000	1.17
	915,000	

Contributed surplus

	June 30, 2006 \$	December 31, 2005 \$
Balance, beginning of period	71,296	14,962
Stock-based compensation	–	56,334
Reclassification to share capital on exercise of stock options	(7,665)	–
Balance, end of period	63,631	71,296

5. Change in non-cash working capital

	Three months ended June 30, 2006 \$	Three months ended June 30, 2005 \$	Six months ended June 30, 2006 \$	Six months ended June 30, 2005 \$
Accounts receivable	(1,249,999)	5,512	(1,677,011)	(95,852)
Inventories	(508,254)	(116,495)	(696,705)	(101,048)
Prepaid expenses and deposits	241,247	11,924	(90,017)	10,948
Accounts payable and accrued liabilities	594,165	25,300	953,431	(11,825)
Customer deposits	(444,938)	(81,080)	440,911	–
	(1,367,779)	(154,839)	(1,069,391)	(197,777)

Baden Technologies Inc.
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June 30, 2006

(Unaudited – Prepared by Management)

6. Related party transactions

During the six month period ended June 30, 2006, the Company purchased office supplies and marketing materials in the amount of \$574 (six month period ended June 30, 2005 - \$630) from a company that is controlled by an officer and director of the Company. Legal services in the amount of \$5,040 (six month period ended June 30, 2005 - \$5,976) were purchased from a partnership deemed to be a related party by virtue of a director's ability to exercise significant influence over the partnership. These transactions are in the normal course of operations and are measured at their exchange amounts, which in management's opinion approximate fair value.

7. Segmented information

The Company operates in three geographic segments within one industry segment. The Company designs and constructs fluid treatment, processing and handling systems for general industrial purposes in Canada, United Arab Emirates and Russia. The amounts related to each segment are as follows:

	June 30, 2006			
	Canada	United Arab Emirates	Russia	Total
	\$	\$	\$	\$
Revenue	2,349,075	178,531	1,628,095	4,155,701
Property, plant and equipment	623,453	–	9,200	632,653

	December 31, 2005			
	Canada	United Arab Emirates	Russia	Total
	\$	\$	\$	\$
Property, plant and equipment	451,838	–	9,200	461,038

	June 30, 2005			
	Canada	United Arab Emirates	Russia	Total
	\$	\$	\$	\$
Revenue	800,218	–	–	800,218

The Company derives significant revenue from large projects and therefore, revenues from individual customers can exceed 10% of total revenues for the period. For the six months ended June 30, 2006, two customers accounted for \$2,050,194 (49.3%) of consolidated revenues, of which \$1,613,284 (38.8% of consolidated revenues) was earned from a customer operating in the Russian segment. The remaining \$436,910 (10.5% of consolidated revenues) was earned from a customer that operates in the Canadian segment.

For the six months ended June 30, 2005, one customer accounted for \$165,440 (20.7%) of consolidated revenues. This customer operates in the Canadian segment.